

Exhibit M



Background Briefing

SCHOOL AID

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January 2011

The fiscal information in this background briefing is based on data through January 1, 2011.

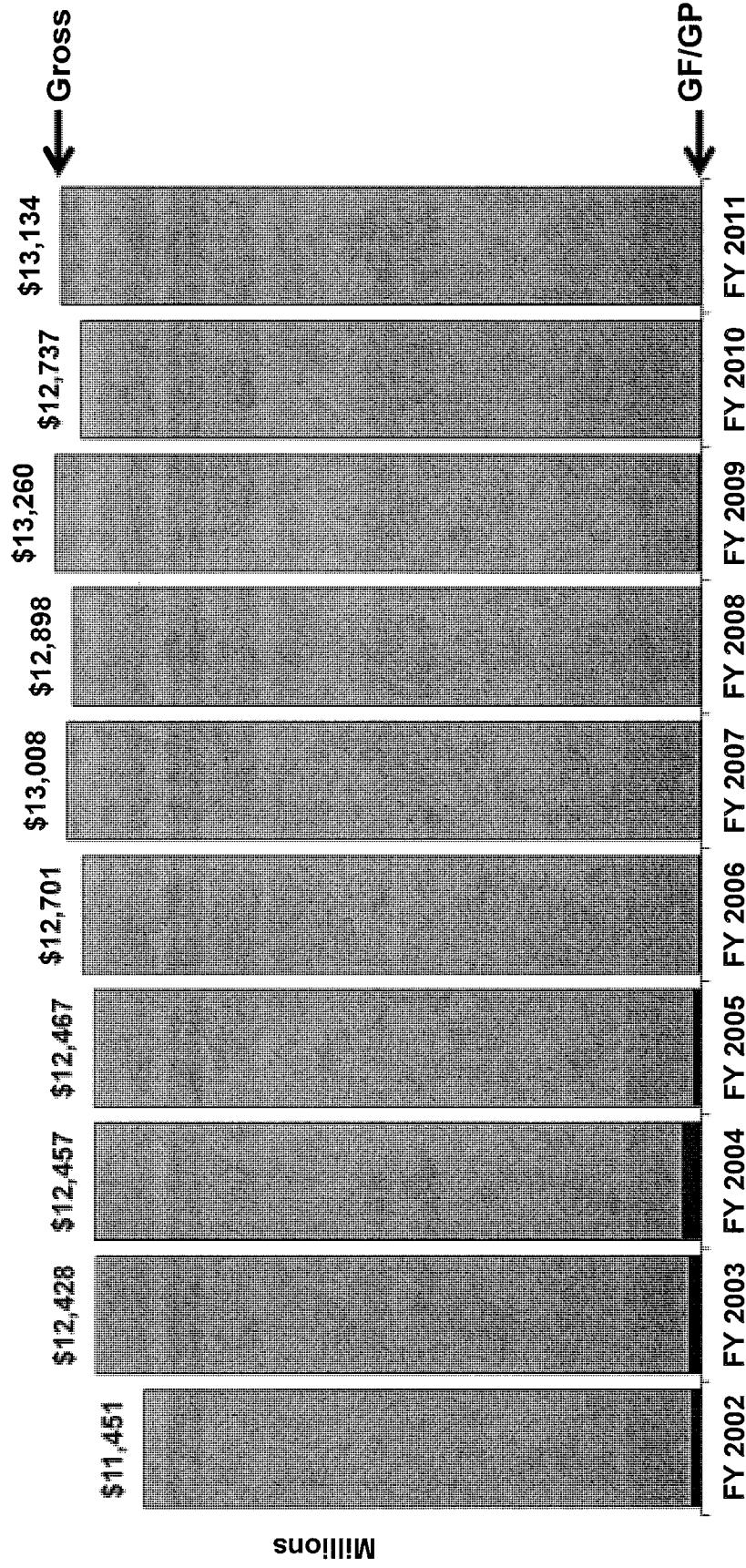
School Aid Budget

The School Aid Budget pays for the day-to-day operations of local public schools, enabling the Legislature to “maintain and support a system of free public elementary and secondary schools as defined by law.”

--- The Michigan Constitution

School Aid: Gross Appropriations

School Aid appropriations have remained fairly flat over the last ten years with Federal ARRA and EdJobs funds providing significant support from FY 2008-09 to FY 2010-11.



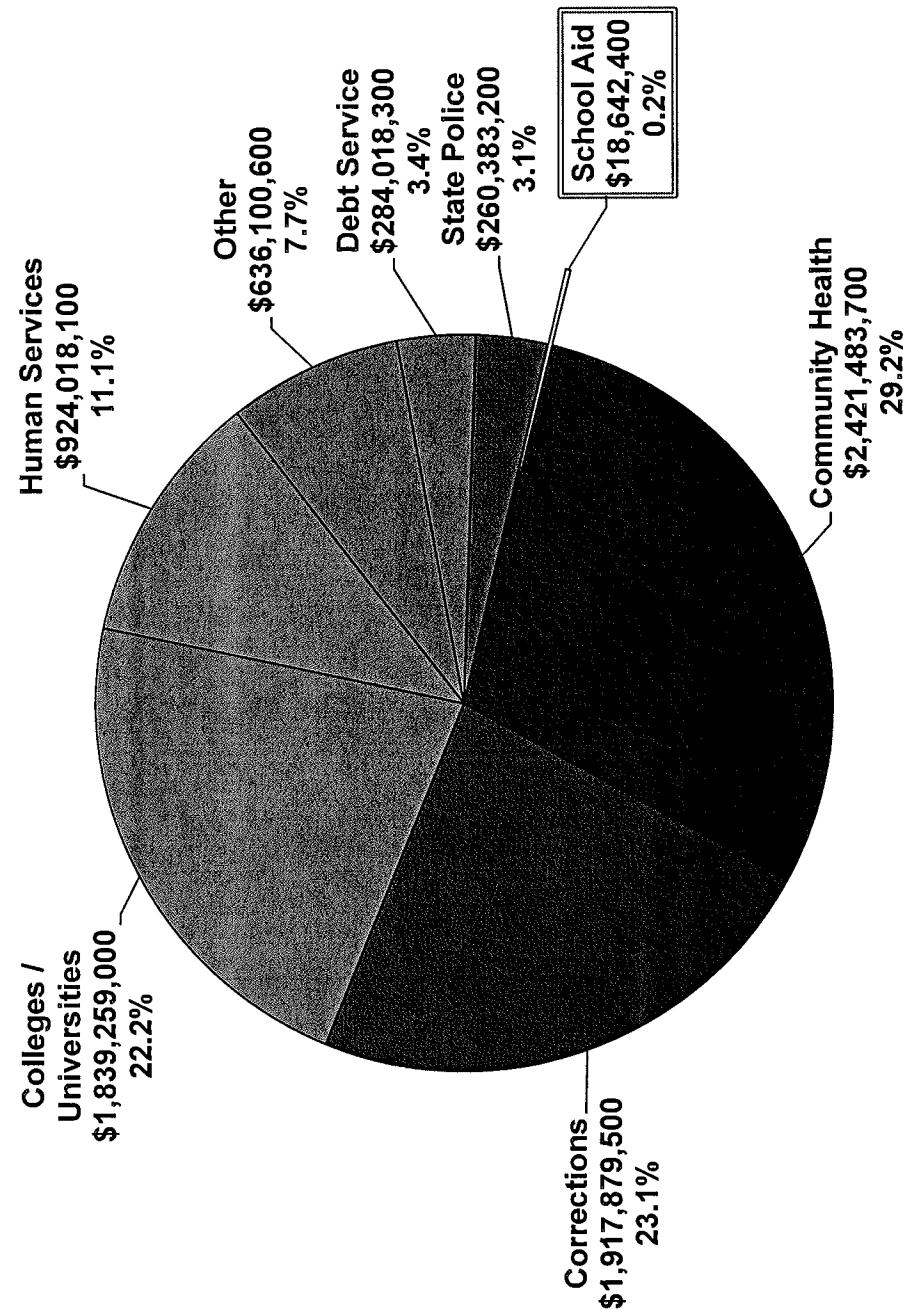
Notes:

1. FY 2003 increase due to nearly \$750 million in federal grants that were transferred to School Aid budget from the Dept of Education budget.
2. FYs 2003 and 2004 appropriations are adjusted for mid-year proration reductions.
3. Beginning in FY 2009 figures include a \$342 million shift from local expenditures to State School Aid associated with business tax changes.
4. FY 2009 through FY 2011 each include between \$450 million and \$600 million in contributions from Federal ARRA and EdJobs funding.

School Aid Share of State GF/GP

The School Aid budget makes up 0.22% of the total state GF/GP budget

FY 2010-11 GF/GP Total = \$8,301,784,800

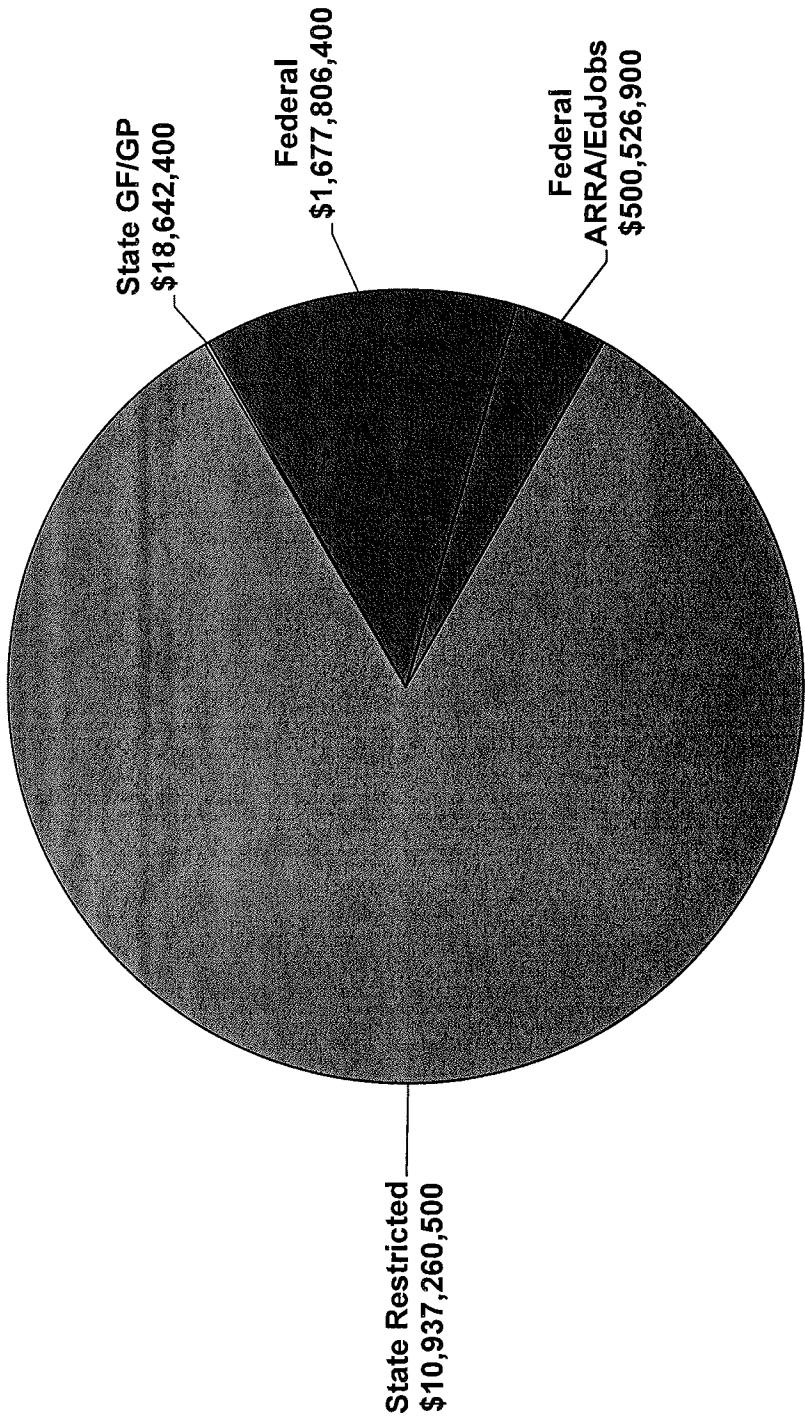


SOURCES OF FUNDING

School Aid Funding Sources

School Aid Fund restricted funds are the largest revenue source in the School Aid budget.

FY 2010-11 School Aid Budget = \$13,134,236,200



**SCHOOL AID
APPROPRIATIONS**

School Aid Appropriations

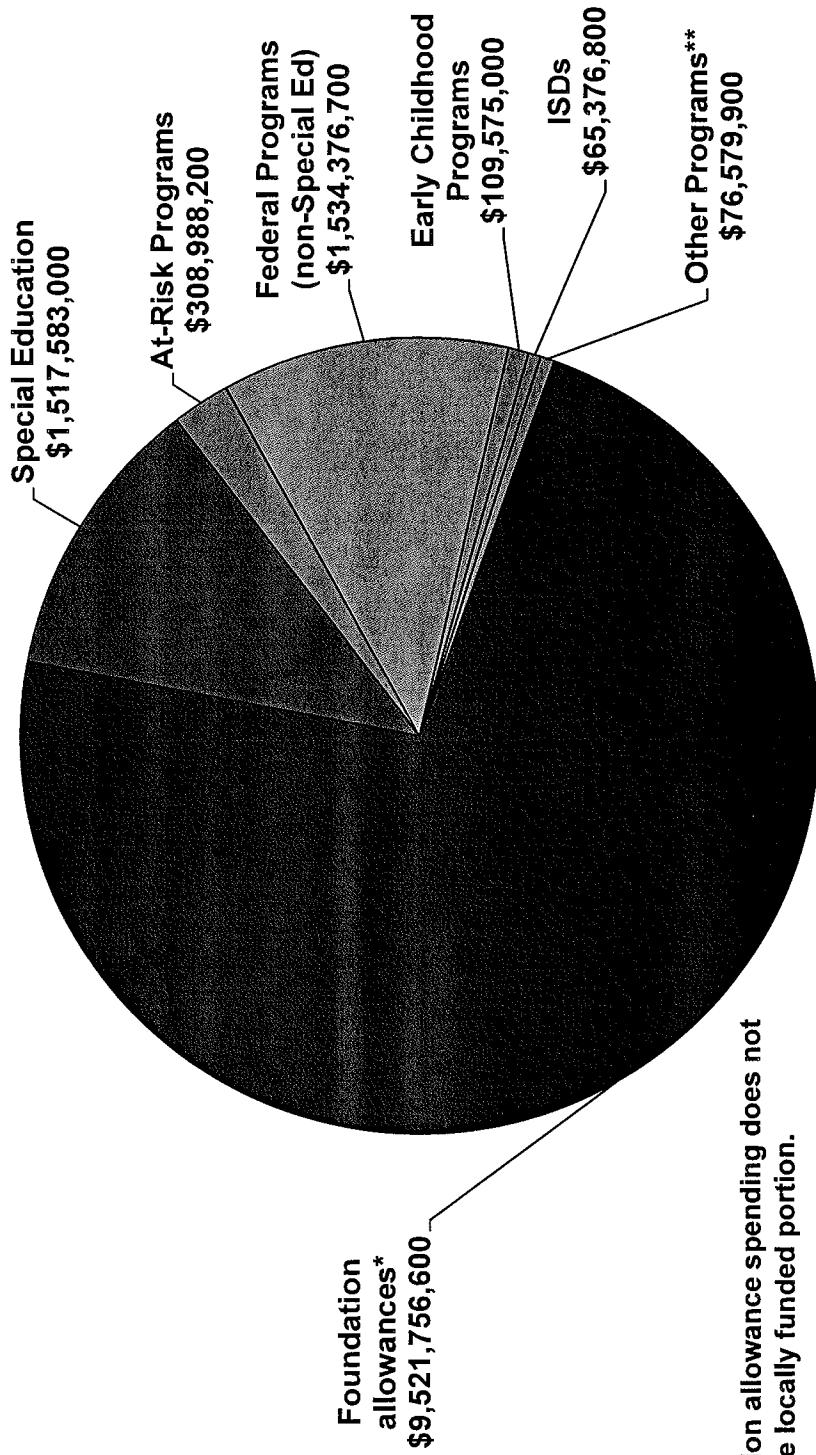
The School Aid Budget includes the following major spending categories :

- **Foundation Allowances**
 - Per pupil payment for general school operations
 - \$9.5 billion in FY 2010-11
 - 72% of the School Aid Budget
- **Special Education**
 - Reimburses districts for a portion of their special education costs
 - \$1.5 billion in FY 2010-11
 - 12% of the School Aid budget
- **At-Risk Programs**
 - Additional funds to help students at risk of academic failure
 - \$309.0 million in FY 2010-11
 - 2% of the School Aid Budget
- **Early Childhood Programs**
 - Provides preschool programs for 4-yr-olds and parenting programs for parents of children ages 0-5.
 - \$109.6 million in FY 2010-11
 - 1% of the School Aid Budget

School Aid Appropriations

Foundation allowances, used for school operations, absorb almost \$3 out of every \$4 spent.

FY 2010-11 School Aid Budget = \$13,134,236,200



* Foundation allowance spending does not include the locally funded portion.

** Other programs include \$345 million in spending as well as a \$269 million reduction applied as a \$170 per pupil reduction to total state aid payments.

MAJOR BUDGET ISSUES

Major School Aid Issues

- School Aid Revenues
- Foundation Allowances
- Special Education Funding
- Public School Academies
- Declining Enrollment

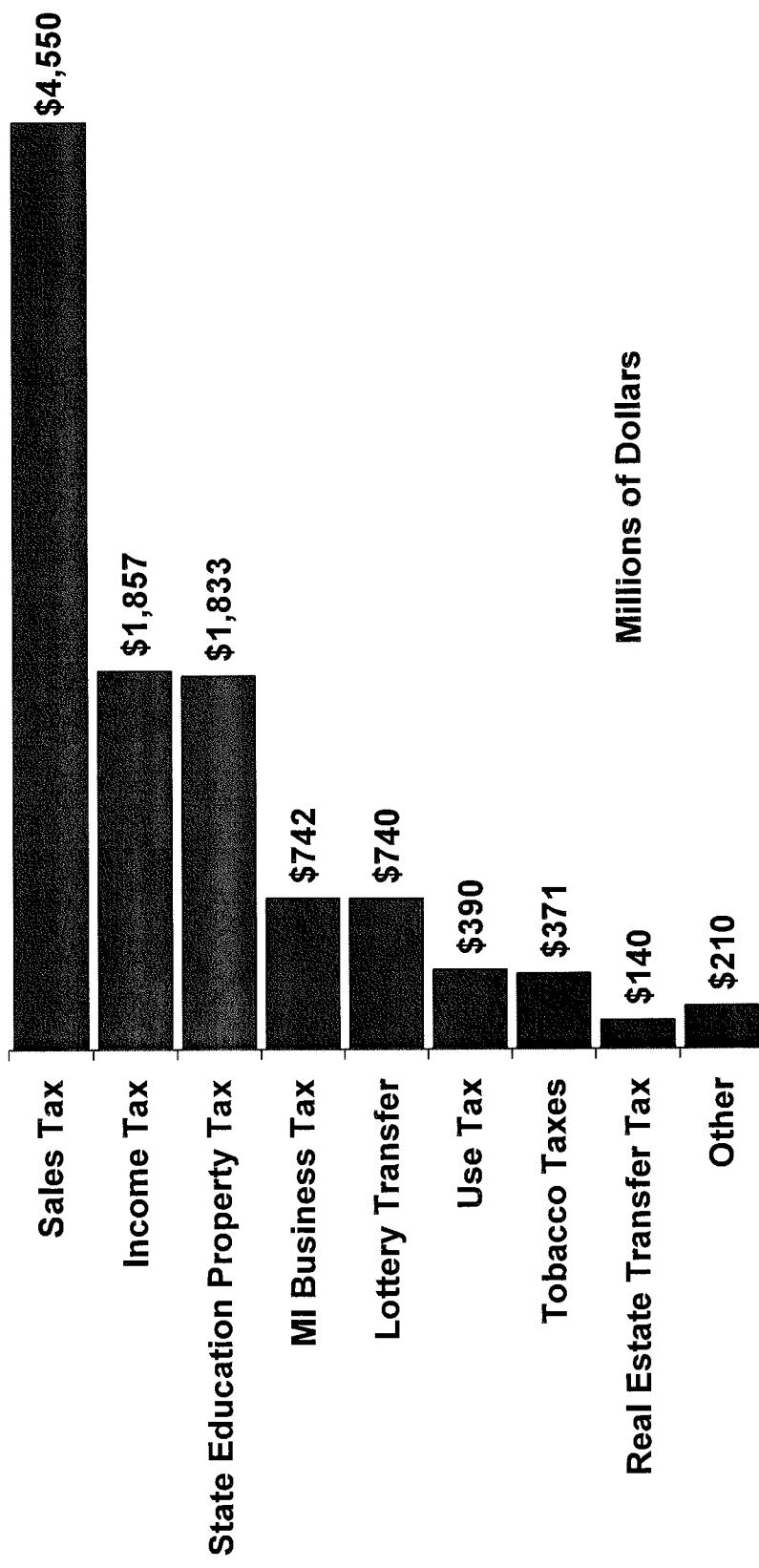
SCHOOL AID REVENUE

School Aid Fund (SAF) Revenue

- SAF provides the majority of state funding for schools.
- Certain taxes are earmarked , or reserved, for deposit into the SAF to pay for school operations.
- State Constitution requires SAF to be used exclusively for schools, higher education, and school employee retirement benefits.
- SAF will receive approximately \$10.8 billion in revenue for FY 2010-11.
- Largest sources of SAF revenue are shown on next slide.

FY 2010-11 SAF Revenue Sources

State sales tax, income tax, and state education property tax are the three largest sources of SAF revenue.

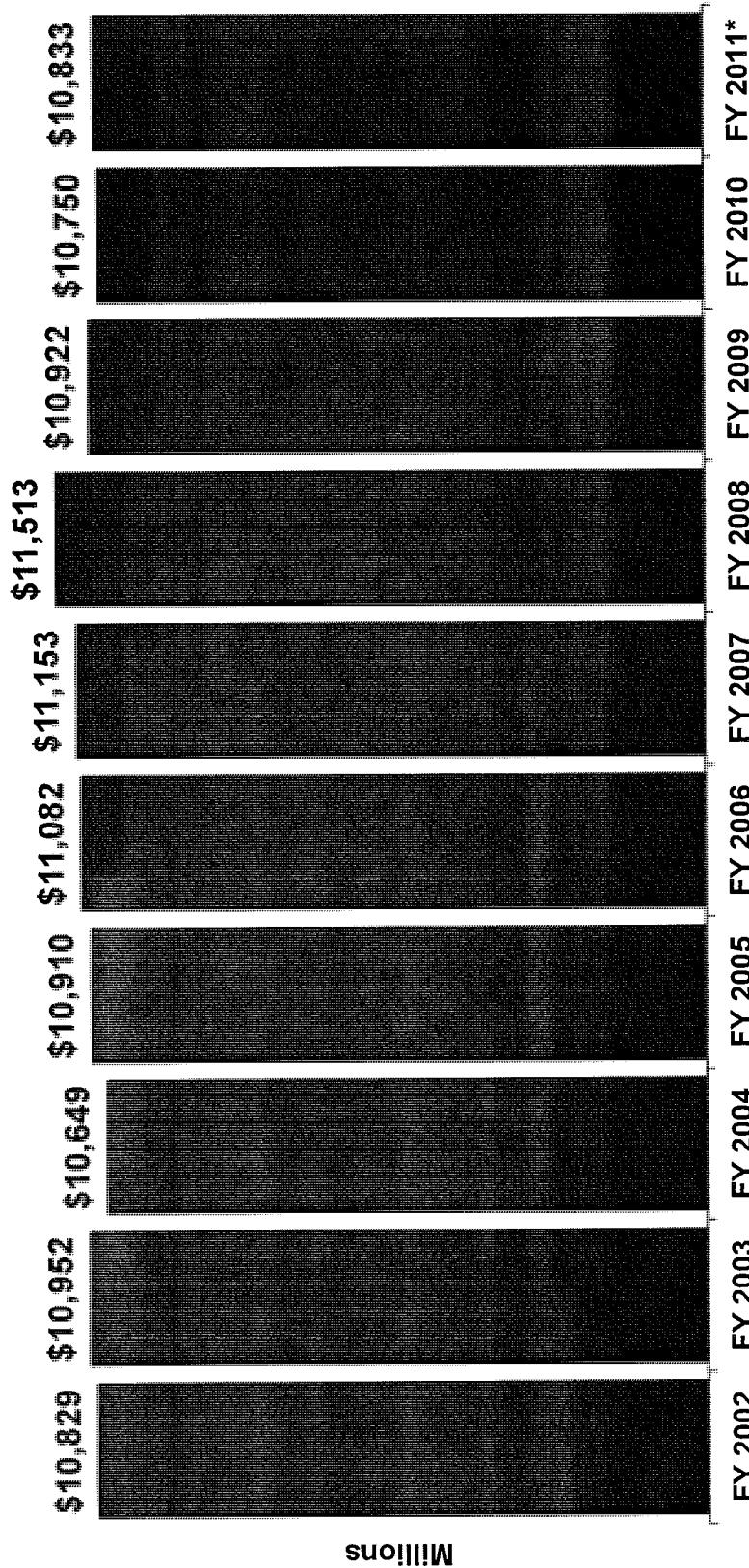


Source: May 2010 Revenue Estimating Conference

House Fiscal Agency: January 2011

SAF Revenue History

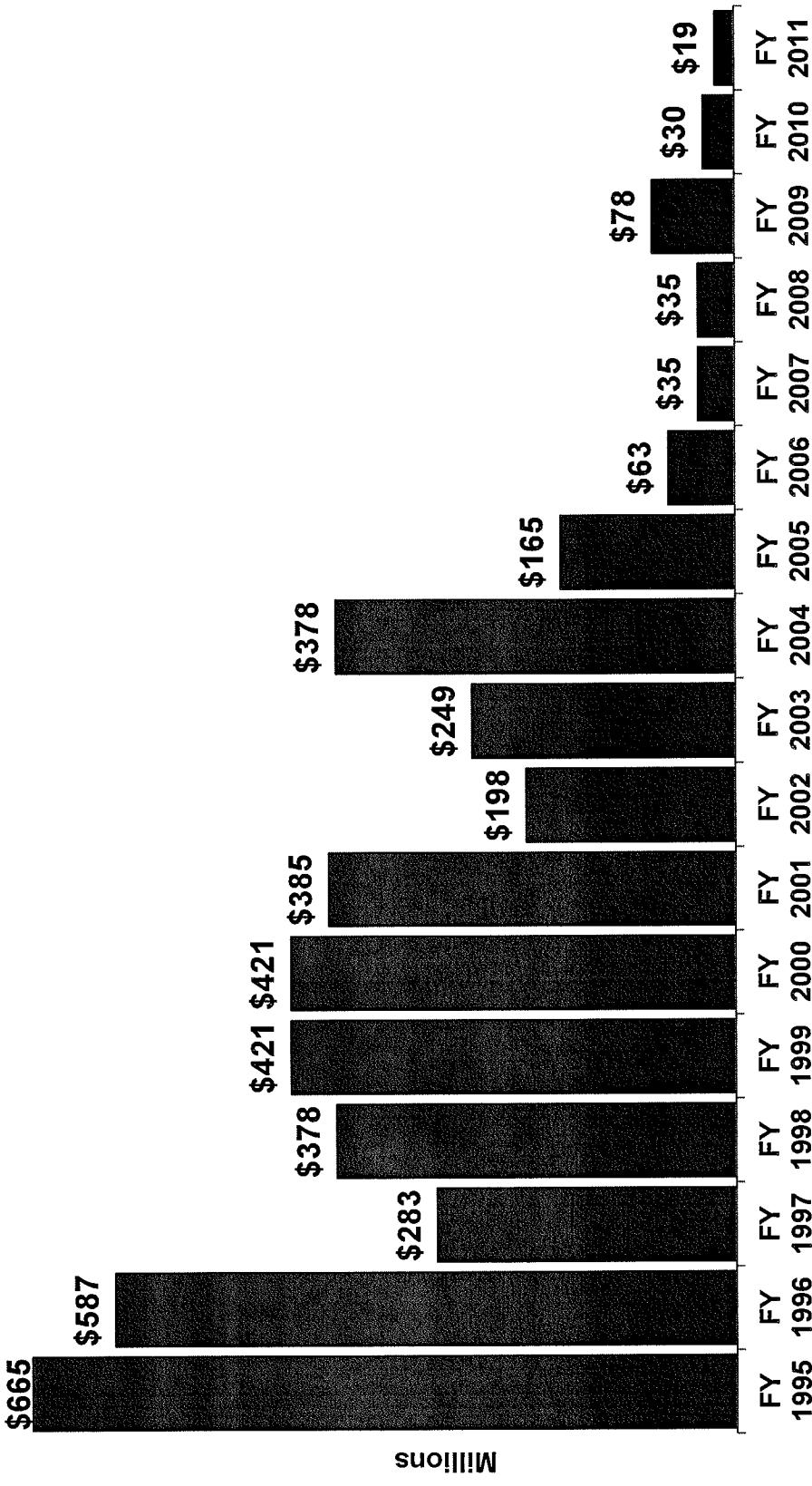
School Aid Fund is estimated to collect over \$10.8 billion in FY 2010-11, down 6% from its high in FY 2008-09.



* FY 2011 figures from May 2010 Revenue Estimating Conference

GF/GP Contribution to School Aid

GF/GP will contribute \$19 million to the School Aid Budget in FY 2010-11, the lowest its been since the implementation of Proposal A in 1994-95.



FOUNDATION ALLOWANCES

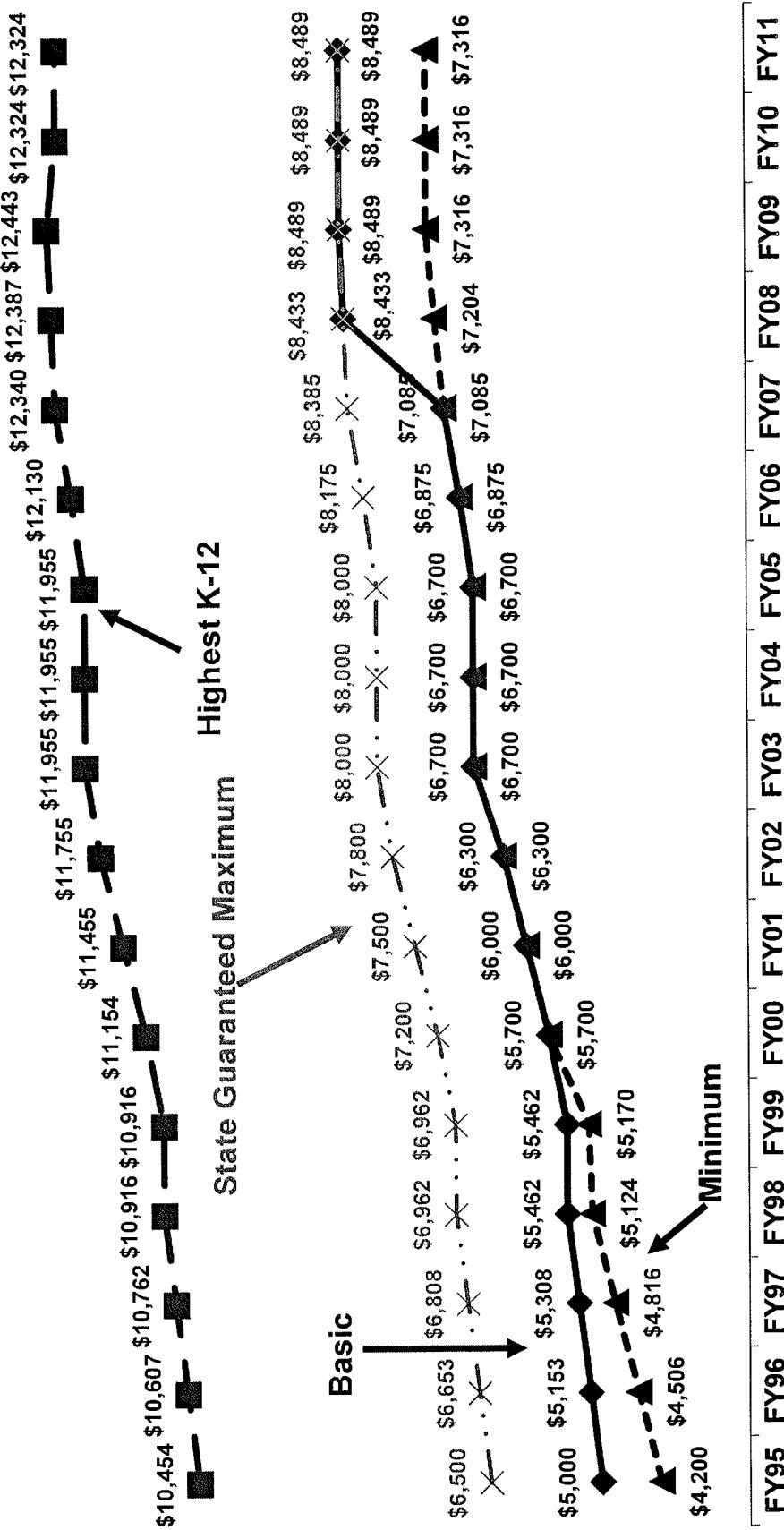
Foundation Allowance

- A per-pupil funding amount that pays the bulk of school operations created as part of the “Proposal A” school finance reforms in 1994-95.
- Districts receive a foundation allowance (per pupil funding amount) initially determined in 1994-95, based on what the district collected from both state and local funds on a per-pupil bases in 1993-94.
- Initial 1994-95 levels:
 - Minimum Level of funding established: \$4,200
 - Basic Level determined: \$5,000
 - State Guaranteed Maximum (Hold-Harmless) level set: \$6,500.
- Varies for K-12 districts from a low of \$7,316 per pupil to a high of \$12,324 in FY 2010-11.

Foundation Allowance History

Growth Since Proposal A

In FY 2007-08 the basic was increased to the state-guaranteed maximum foundation allowance.



“Basic” Foundation Allowance

- The “Basic” foundation allowance was a minimum goal established in 1994 as part of the **Proposal A** reforms, and it is set by the Legislature each year as a target per-pupil funding level.
- In FY 1999-2000, all school districts in Michigan reached the **Basic foundation allowance**, after which point all districts received the same annual increases except for two years in which additional “equity” payments were made to those at the **Minimum** to decrease the funding gap between those at the top and bottom.
- In FY 2007-08, the legislature re-set the **Basic foundation allowance** to equal the **State Guaranteed Maximum foundation and reinstated the 2x formula** under which districts at the bottom receive twice as much an increase as those at the **Basic** or above. All other districts receive an increase somewhere in between on a sliding scale determined by formula.

Foundation Allowance

State/Local Funding Mix

- Each district levies 18 mills on non-homestead property.
- State calculates local revenue from the 18 mills on a per-pupil basis.
- State deducts per-pupil local revenue from the lesser of the district's foundation allowance or state guaranteed maximum per pupil amount.
- Districts above the state guaranteed maximum (hold harmless districts) are allowed by law to levy additional mills with voter approval to achieve their statutory foundation allowance.

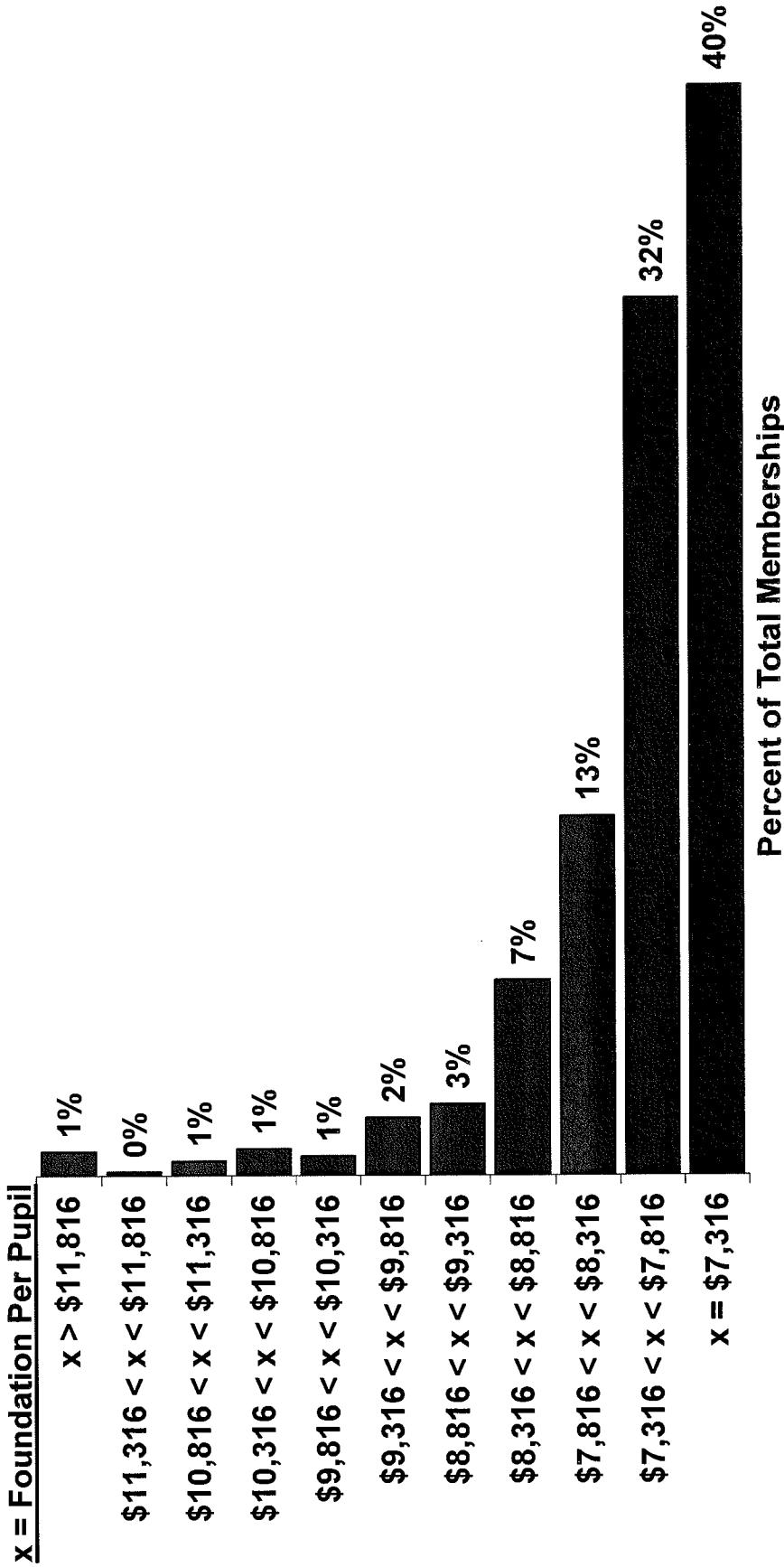
Equity Among Districts

- Before Proposal A, the per pupil spending difference between the highest- and lowest-funded K12 district was almost \$6,900 or 3:1.
- In FY 2010-11, the difference between the highest and lowest K-12 district is \$5,008, less than 2:1.
- In FY 1994-95 there were 356 districts and public school academies below the Basic foundation allowance.
- By FY 1999-2000, all districts and public school academies were at or above the Basic foundation allowance.
- In FY 2010-11, there are 398 districts at the minimum foundation allowance, and 44 districts above the new Basic, with everyone else in between.

Equity Among Districts

FY 2010-11 Pupil Distribution

72% of pupils are concentrated in districts with a foundation allowance less than \$7,816.



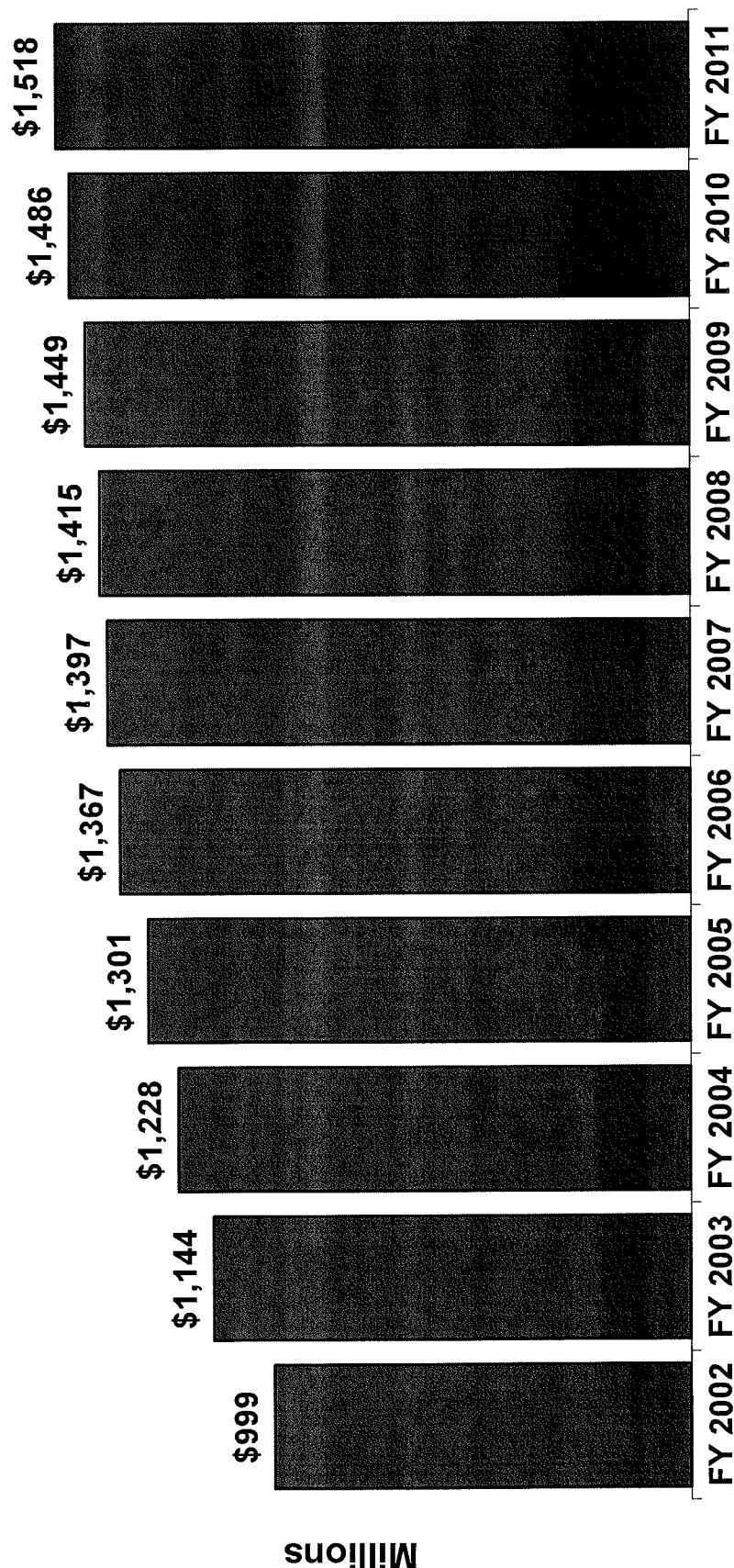
**SPECIAL EDUCATION
FUNDING**

Special Education Funding

- **Second largest School Aid appropriation in FY 2010-11**
 - \$1,057.9 million state dollars
 - \$459.7 million federal dollars
- **Reimburses school districts for the costs of educating special education students.**
- **Required reimbursement rates determined by the Michigan Supreme Court in *Durant v. State of Michigan* in 1997:**
 - **28.6138% of Total Special Education Costs**
 - **70.4165% of Total Special Education Transportation Costs**

Special Education Appropriations

This categorical grew by 52% between FY 2001-02 and FY 2010-11.



**PUBLIC SCHOOL
ACADEMIES**

Public School Academies (PSAs or Charter Schools)

- A public school academy is a special type of public school formed by individuals or groups of individuals to use a special educational approach or serve a particular school population.
- Public school academies have been in existence since FY 1994-95 in Michigan.
- Charter schools are authorized to operate by universities, community colleges, intermediate school districts, and local school districts.

Facts About Public School Academies

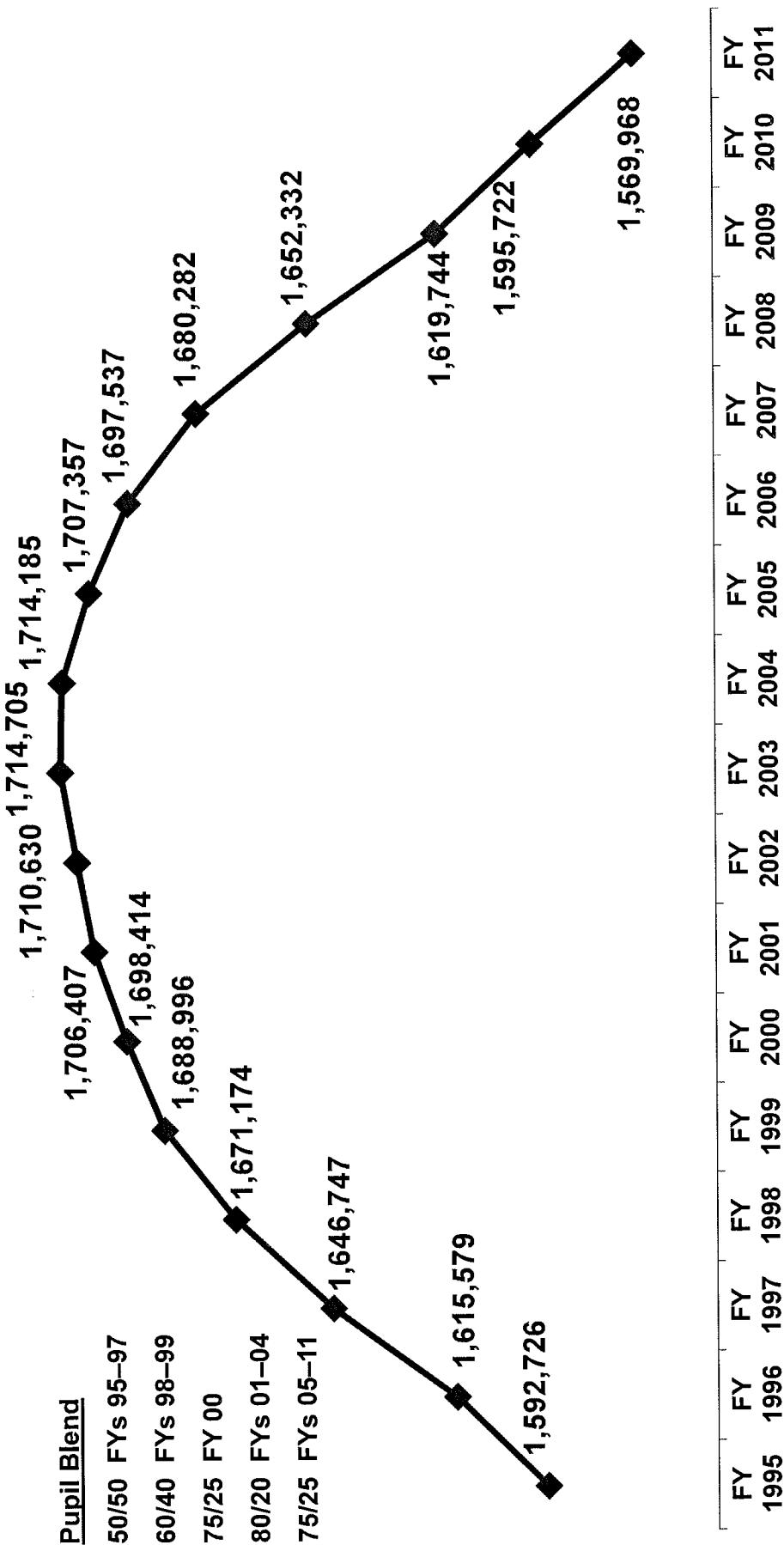
- Number: 247 schools
- Pupils: 111,800 pupils in PSAs
- Average size: 450 pupils per school
- Percent of pupils in PSAs: 7.1% of public school students
- The number of public school academies that state universities may authorize is currently limited to 150.
- PSA FY 2010-11 foundation allowance equals the lower of:
 - Foundation allowance of the school district in which it is physically located
 - OR
 - \$7,580 per pupil

DECLINING ENROLLMENT

Declining Enrollment

- Fewer pupils means a loss of revenue to schools.
- 74% of all traditional (non-PSA) districts face declining enrollment.
- The FY 2010-11 budget includes \$20 million for districts to be distributed as grants based on a three-year average pupil count for those with two consecutive years of decline. The actual total cost would reach nearly \$300 million, so payments will be prorated.

Declining Enrollment Total Pupil Membership Counts



House Fiscal Agency: January 2011

* FY 11 December State Aid Payments.

**For more information about the
School Aid budget, contact:**

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